

## Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03  
INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02  
CIEP-01 LAB-04 SIL-01 OMB-01 PM-04 H-01 L-03 NSC-05  
PA-01 PRS-01 SS-15 AF-08 /094 W  
-----171655 079961 /46

R 171440Z FEB 77

FM AMEMBASSY LISBON

TO SECSTATE WASHDC 0236

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY MADRID

AMEMBASSY MOSCOW

AMCONSUL OPORTO

AMEMBASSY PARIS

AMCONSUL PONTA DELGADA

USMISSION NATO

DIA WASHDC

USCINCEUR VAIHINGEN GER

C O N F I D E N T I A L SECTION 1 OF 2 LISBON 1355

E.O. 11652: GDS

TAGS: PINT

SUBJECT: CONVERSATION WITH SA CARNEIRO: PORTUGAL'S EVEL  
KNIEVEL SAYS HE DOESN'T PLAN TO JUMP

REF: (A) LISBON 1249 (B) LISBON 1147

SUMMARY: LISBON THESE DAYS IS WONDERING HOW FAR SA CARNEIRO  
INTENDS TO GO IN HIS OPPOSITION TO THE GOVERNMENT--DOES HE  
PLAN TO PULL THE HOUSE DOWN AROUND HIM? IN A CONVERSATION  
WITH ME FEB 16 SA CARNEIRO CLEARLY PULLED BACK FROM THE  
BRINK. WHILE STILL CRITICAL OF THE SOCIALISTS, HE INDICATED  
THE PSD WOULD SUPPORT AUSTERITY PROGRAM IF IT IS COUPLED  
WITH "DEVELOPMENTAL" MEASURES, SPECIFICALLY THOSE DEFINING  
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PUBLIC SECTOR LIMITS AND INDEMNIFYING OWNERS OF NATIONALIZED  
COMPANIES. SA CARNEIRO SAID HE RECOGNIZED THAT A  
PS-PSD COALITION IS NO LONGER A SOLUTION. PSD NEVERTHE-  
LESS CONTINUES OPEN TO A DIALOGUE, AND IS PARTICULARLY  
ANXIOUS TO COOPERATE IN THE LABOR AREA. ASKED ABOUT  
RUMORS OF PSD UNHAPPINESS WITH USG SUPPORT FOR PS  
GOVERNMENT, SA CARNEIRO SAID, TO CONTRARY, HE CONSIDERED

PSD RELATIONS WITH USG EXCELLENT. HE UNDERSTOOD FULLY THAT USG HAD TO HAVE "PREFERENTIAL RELATIONSHIP" WITH SOCIALISTS. END SUMMARY.

1. HOW MUCH OPPOSITION? AS EMBASSY HAS REPORTED, THE PSD OPPOSITION TOWARDS THE GOVERNMENT HAS HARDENED, ALTHOUGH MOST RECENTLY THE PSD HAS UPPORTED THE GOVERNMENT ON ENTRY INTO THE EEC AND ON LEGISLATION REGARDING WORKER LAYOFFS. THE KEY QUESTION BEING ASKED BY LISBON POLITICIANS, INCLUDING SOARES, IS HOW FAR SA CARNEIRO INTENDS TO GO. IS HE SO DRIVEN BY HIS DESIRE FOR POWER, AS SOME THINK, THAT HE IS WILLING TO PULL THE HOUSE DOWN IN THE HOPE THAT HE WILL EMERGE MORE PROMINENTLY FROM THE RUBBLE? AT LUNCH WITH MEF FEB 16, SA CARNEIRO PUT HIS BEST FOOT FORWARD. HE CRITICIZED THE SOCIALISTS FOR THEIR INEFFICIENCY, THEIR CORRUPTION AND THEIR SCANDALOUS PATRONAGE PRACTICES BUT HE SHIED AWAY FROM ANY HINT HE INTENDED TO BRING THEM DOWN. HE SAID THE SOCIALISTS WOULD HAVE TO RESTRUCTURE THEIR GOVERNMENT COMPLETELY AND HE NOTED A "COINCIDENCE" OF POSITIONS BETWEEN THE PSD AND THE CDS THAT THE PRESIDENT MUST BECOME MORE ACTIVE IN THE GOVERNMENTAL PROCESS. BUT HE SAID HE HAD GIVEN UP ANY EFFORT TO FORCE A PSD-PD COALITION GOVERNMENT AND WAS INSTEAD SEEKING SPECIFIC AREAS OF COOPERATION. HE ADMITTED THE PSD POSITION ON THE GOVERNMENT'S PLAN AND BUDGET, FOLLOWED BY OPPOSITION TO THE 15 PERCENT CIVIL SERVICE INCREASE LIMITATIONS "FOR PROCEDURAL REASONS," HAD CAUSED HARD FEELINGS BUT HE THOUGHT THOSE MIGHT BE ATTENUATED BY MORE RECENT PSD SUPPORT FOR THE PS ON ENTRY INTO THE CONFIDENTIAL

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COMMON MARKET AND THE LAW ON WORKER DISMISSALS. HE NOTED SPECIFICALLY THAT SOARES TOLD HIM HE WOULD CONSULT WITH HIM ON AN AUSTERITY PACKAGE AFTER HE RETURNS FROM HIS VISIT TO EC COUNTRIES.

2. ECONOMIC PROGRAM. I ASKED SA CARNEIRO HOW HE VIEWED OUR ECONOMIC ASSISTANCE PROGRAM AND IF HE WOULD SUPPORT A GOVERNMENT AUSTERITY PROGRAM. HE SAID OUR SUPPORT WAS ESSENTIAL PROVIDED IT WAS USEFUL IN MOVING THE SOCIALISTS TOWARD THE TOUGH DECISIONS NEEDED FOR ECONOMIC RECOVERY. HE WAS PLEASED WHEN I DESCRIBED IN GENERAL TERMS THE DIALOGUE WE HAD HAD ON THE LOAN AND NOTED THAT WE HAD REACHED AN UNDERSTANDING ON GENERAL POLICY WITHOUT IMPOSING SPECIFIC CONDITIONS THAT COULD BE EXPLOITED BY EXTREME NATIONALISTS OF ONE STRIPE OR ANOTHER. HE ALSO WELCOMED IMF INVOLVEMENT. HE SAID THE PSD WOULD SUPPORT AN AUSTERITY PROGRAM PROVIDED IT CONTAINED CERTAIN "DEVELOPMENTAL" MEASURES. MOST IMPORTANT WERE COMPENSATION FOR NATIONALIZATIONS, AN END TO GOVERNMENT

SUPPORT OF UNECONOMIC INTERVENED ENTERPRISES AND  
ACCEPTABLE LEGISLATION DEFINING THE LIMITS OF PUBLIC  
SECTOR ACTIVITY. THE PSD WAS NEGOTIATING WITH THE PS  
TO MODIFY THE PRESENT DRAFT LAWS TO ADD CEMENT AND  
FERTILIZER TO THE LIST OF AREAS OPEN TO THE PRIVATE  
SECTOR. THE CDS WOULD TRY TO ADD BANKS, BUT WHILE THIS  
MIGHT BE DESIRABLE ECONOMICALLY, IT WAS POLITICALLY  
UNREALISTIC.

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C O N F I D E N T I A L SECTION 2 OF 2 LISBON 1355

3. LABOR. SA CARNEIRO WAS PLEASED WITH THE  
PSD PROGRESS IN LABOR AND SAID HE WAS STILL OPEN TO  
COLLABORATION WITH THE SOCIALISTS IN THIS AREA. THE  
PROBLEM WAS THAT THE SOCIALISTS HAD THREE DIFFERENT  
LABOR POLICIES, ALTHOUGH THE MOST SENSIBLE ONE, THAT  
FAVORED BY MALDONADO AND MADUREIRA, WAS CLEARLY COMING  
OUT AHEAD (REFTEL A). THE PS WAS INCLINED TO AGREE ON  
COALITIONS IN UNION ELECTIONS WHERE IT WAS TO THEIR  
ADVANTAGE. FOR EXAMPLE, THEY ACCEPTED A COALITION WITH  
THE PSD IN THE BANK WORKERS ELECTIONS IN THE CENTRAL  
REGION, BUT REJECTED IT IN THE SOUTH WHERE THE SOCIALISTS

WERE STRONGER. SA CARNEIRO FAVORED COLLABORATION WITH THE AFL/CIO BUT NOTED THAT ANOTHER DIMENSION HAD BEEN ADDED WHEN I MENTIONED THAT THE SOURCE OF THE MONEY WOULD  
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ULTIMATELY BE THE USG, ALTHOUGH THIS MIGHT NOT BECOME KNOWN PUBLICLY. IF THE MONEY CAME FROM THE USG SA CARNEIRO THOUGHT HE MIGHT HAVE TO SET UP A SEPARATE FOUNDATION TO DEAL WITH THE AFL/CIO.

4. PUBLIC ADMINISTRATION. SA CARNEIRO AGREED WHOLE-HEARTEDLY WHEN I NOTED THAT THE PROBLEM OF PUBLIC ADMINISTRATION WAS PERHAPS THE MOST SERIOUS THE GOP FACED. HE FELT AN ENTIRE OUVERHAUL OF THE GOVERNMENT STRUCTURE WAS NECESSARY. HE WELCOMED THE PRESIDENT'S POTENTIAL NOMINATION OF FREITAS DO AMARAL TO HEAD A COMMISSION ON ADMINISTRATIVE REFORM (REFTEL B), EVEN THOUGH THIS WAS AN OBVIOUS SLAP IN THE FACE FOR SOARES.

5. RELATIONS WITH THE USG. I TOLD SA CARNEIRO THAT A NUMBER OF PSD FIGURES HINTED TO US THAT THE PSD WAS UNHAPPY WITH WHAT THEY PERCEIVED TO BE EXCESSIVE USG SUPPORT FOR THE PS GOVERNMENT. I NOTED THAT OUR SUPPORT WAS DIRECTED NOT AT ANY PARTICULAR PARTY BUT AT THE DEMOCRATIC PROCESS IN GENERAL, AND THAT WE OBVIOUSLY HAD TO DEAL WITH THE GOVERNMENT IN POWER. MOREOVER, WE HAD ENJOYED GOOD CONTACTS AND CLOSE RELATIONS WITH THE PSD AT A TIME WHEN THE PSD WAS MUCH LESS POWERFUL THAT IT IS NOW. I RECOGNIZED THAT A CERTAIN AMOUNT OF CRITICISM OF USG WAS INEVITABLE FROM OPPOSITION PARTIES BUT HOPED IT WAS NOT BASED ON ANY SUBSTANCE.

6. SA CARNEIRO DISMISSED THESE COMPLAINTS AND RESPONDED ENTHUSIASTICALLY THAT PSD RELATIONS WITH USG COULD NOT BE BETTER. THE PSD APPRECIATES THE CLOSE COLLABORATION IT HAD CONSISTENTLY HAD WITH US, AND HE, SA CARNEIRO, FELT WE HAD ALWAYS RESPONDED SYMPATHETICALLY TO HIS PROBLEMS. MOREOVER HE RECOGNIZED CLEARLY THAT USG HAD TO HAVE A "PREFERENTIAL RELATIONSHIP WITH THE SOCIALISTS." IF ANY PROBLEMS EVER DID DEVELOP BETWEEN THE PSD AND THE USG HE WOULD LET ME KNOW DIRECTLY.  
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7. TRIP TO US. SA CARNEIRO TOLD ME HE PLANNED TO ACCEPT A COUNCIL OF FOREIGN RELATIONS INVITATION TO SPEAK IN

EARLY MAY AND THAT HE WOULD LIKE TO VISIT WASHINGTON MAY 4-5. HE WOULD BE DELIGHTED IF HE COULD CALL ON THE PRESIDENT BUT RECOGNIZED THIS WAS UNREALISTIC. HOWEVER, HE HOPED THAT APPOINTMENTS COULD BE MADE FOR HIM TO SEE SECRETARY VANCE AND OTHER STATE DEPARTMENT OFFICIALS.

8. COMMENT: IN MY PREVIOUS TWO CONVERSATIONS WITH HIM I FOUND SA CARNEIRO INCREASINGLY RIGID IN HIS APPROACH TO THE GOVERNMENT. THIS TIME I WAS PREPARED FOR THE WORST BUT WAS PLEASANTLY SURPRISED. HE MAY HAVE RECEIVED THE MESSAGE INDIRECTLY THAT I WAS INCREASINGLY CONCERNED ABOUT HIS INTRANSIGENCE. WHATEVER THE REASON HE WAS LESS STRIDENT AND MORE RELAXED THAN USUAL. I TOLD HIM I RECOGNIZED THAT HE WAS AN OPPOSITION LEADER AND AS SUCH HAD AN OBLIGATION TO CRITICIZE. HOWEVER, I HOPED THAT THIS CRITICISM WOULD BE CONSTRUCTIVE AND THAT THE PSD WOULD ALWAYS KEEP IN MIND THE DANGER OF LETTING PORTUGAL SLIP BACK INTO CHAOS. SA CARNEIRO SAID HE UNDERSTOOD ME PERFECTLY AND HAD NO INTENTION OF LETTING THAT HAPPEN.  
CARLUCCI

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## Message Attributes

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